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SUBJECT: COLOMBIA SHOWCASES POTENTIAL AS STRATEGIC ENERGY
PARTNER TO DOE DEPSEC KUPFER

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¶1. (SBU) SUMMARY. Acting Deputy Secretary of Energy Jeffrey Kupfer led a DOE delegation to Cartagena, Colombia August 7-9, which met with a wide array of government and private sector leaders from across the energy sector. They told the delegation that Colombia's business climate was excellent and noted Colombia's tremendous energy sector potential in areas ranging from natural gas to biofuels. Deputy Secretary Kupfer gave remarks at the annual General Assembly of Colombia's major business association (ANDI). The delegation also visited the second largest coal mine in Colombia, La Loma, operated by Alabama-based Drummond Ltd. END SUMMARY.

National Industries Association: Energy Outlook Bright
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¶2. (SBU) The energy sector principals of the National Industries Association of Colombia (ANDI) explained how Colombia's self-sufficiency and growing export potential in the energy sector position the country well to serve as a strategic energy ally to the U.S. According to ANDI Energy Committee Director Daniel Romero, about 65 percent of Colombia's electricity comes from hydroelectric generation, and short-term expansion plans will likely push the figure to 70 percent. Colombia is the world's fifth largest producer of coal, which is mostly exported to the U.S. and Europe. Production is expected to increase from 70 million tons in 2007 to 120 million tons in 2012. On natural gas, Romero noted that Colombia has tremendous on-shore potential that has only recently become viable due to the improved security situation in the country. On biofuels, ANDI Board Chairman Sergio Restrepo noted the efficiency of sugar cane and palm (Colombia's chief inputs) in producing ethanol and biodiesel, respectively, and stated that, for this reason, Colombia had not had to deal with the "food versus fuel" dilemma to the degree that other countries had. Deputy Secretary Kupfer cautioned that while there were some downsides to corn-based ethanol, it served neither country's interest to make public remarks over the superiority of one type of ethanol over another, as this only emboldened those seeking to undermine biofuels altogether. In response to the Deputy Secretary's question of how the U.S. could be helpful to Colombia's efforts to develop its biofuels industry, the group responded that its biggest needs were in the areas of technology, investment, infrastructure, and government regulation.

Zamora: Colombia a Potential Substitute for Venezuelan Crude
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¶3. (SBU) Armando Zamora heads the Colombian hydrocarbons

regulatory agency (ANH). He told Kupfer that only 22% of Colombian territory has been explored for oil and gas, including the estimated 1 million kilometers of Colombian territorial waters off the Pacific and Caribbean coasts. Zamora stated that due to security gains, almost all of Colombian territory is now safe for exploration, noting however that the GOC would not authorize exploration in the Colombian Amazon due to environmental sensitivities. He cited a Halliburton study estimating that there are 20 million barrels of recoverable oil yet to be found in Colombian territory. Zamora noted that Colombia will produce 600,000 b/d by the end of 2008, a figure that could jump as high as 1 million b/d by 2020. FDI for hydrocarbon exploration continues to pour in, reaching $3.5 billion (out of a total of $9 billion) in 2007, increasing to an estimated $5 billion for 2008. Zamora concluded the meeting by mentioning an MOU that Colombia plans to sign with Jamaica to explore for gas in joint waters in the Caribbean. Zamora believes that Colombian gas -- as well as its heavy crude -- should be looked at as a substitute for Venezuelan oil, and could be delivered to states throughout the Gulf and Caribbean as a means to counter Chavez's petro-diplomacy.

Ecopetrol: Privatization Spurring Expansion

¶4. (SBU) Javier Gutierrez, President of Colombia's parastatal oil company Ecopetrol, characterized the operating environment in Colombia as excellent. The GOC sold 10.1 percent of Ecopetrol's shares in November, 2007 (reftel) and plans to sell another 9.9 percent, although Gutierrez said no decision had been made yet as to when. Despite the

government's large stake in Ecopetrol, Gutierrez made clear that the company has no advantages over any other oil company when it comes to doing business. Ecopetrol currently produces 450,000 of Colombia's 570,000 barrels per day, and Gutierrez said Ecopetrol's goal was to produce one million barrels per day in ten years, partly through international expansion into Brazil, Peru, the Gulf of Mexico, and elsewhere. Gutierrez noted the tremendous on-shore exploration potential that has opened up in Colombia with increased security. The number of new exploration wells has increased each year since 2004, when there were 10, to 2007 when there were 73. This year, Gutierrez said there may be more than 100. In response to Deputy Secretary Kupfer's question about the GOC's take on newly awarded projects being linked to the price of oil, Gutierrez said that this was common throughout the world and that a trigger of $90 per barrel was quite reasonable. Gutierrez noted that Ecopetrol was seeking strategic partnerships with organizations with agricultural expertise in sugar and palm to expand its involvement in the biofuels sector. When asked about the major challenges Ecopetrol faces, Gutierrez noted natural gas production and transportation infrastructure, as well as retention of human capital. Gutierrez said, however, that with recent salary reforms at the company, the latter has become less of a problem. Acting Assistant Secretary Slutz encouraged Ecopetrol specifically, and Colombia generally, to take a more active role in the Carbon Sequestration Leadership Forum, a suggestion Gutierrez welcomed.

Biofuels: Growing Industry to Fuel Employment

¶5. (SBU) Members of the National Biofuels Federation outlined how Colombia's regulatory framework -- through a combination of fuel blending mandates, price floors, and tax benefits -- is designed to incentivize the creation of a robust national biofuels industry. The domestic ethanol industry was started five years ago, and the biodiesel industry, just one year ago. Today, 70 percent of Colombia's gasoline is E10 (10 percent ethanol), with the goal to have 100 percent E10 by the end of 2009. Under the current requirements, the

blending mandates will increase gradually up to E20. There is even draft legislation under consideration that would require all vehicles produced or imported as of 2012 to be flex-fuel (able to run on E-100). Arturo Infante, the GOC's National Biofuels Coordinator, noted that Colombia had not decided to establish a biofuels industry for the sake of energy, since Colombia is already self-sufficient. Rather, a biofuels industry will allow Colombia to reclaim land that has previously been controlled by illegal armed groups and put it to productive use, which will in turn create jobs and viable alternatives for demobilized individuals. Infante also stressed the need for life cycle analysis studies currently under way (of both sugar-based ethanol and palm-based bio-diesel) to help answer biofuel critics from the environmental and labor angles. Infante also stressed Colombia's desire to be part of the Global Bioenergy Partnership (GBEP) in order to move forward with some form of environmental and labor standards, which would help Colombia differentiate its biofuels from those of cheaper suppliers, such as Indonesia and Malaysia. In response to Deputy Secretary Kupfer's question about how the U.S. could be helpful to the biofuel industry, Luis Fernando Lodono, President of the Sugar Growers' Association noted that with entry into force of the Free Trade Agreement, Colombian ethanol and biodiesel will enter the U.S. duty free.

Minister Explains New Contract Model

¶6. (SBU) Minister of Mines and Energy Hernan Martinez explained the GOC's proposed new contract for hydrocarbon exploration, emphasizing that changes would only apply to new contracts--there will be no retroactive application to existing arrangements. The GOC wants to encourage continued foreign investment, he emphasized, but also finds itself politically vulnerable if it were to do nothing to increase the government's take in an era of growing energy prices, particularly given the confiscatory activities of Colombia's neighbors. The new policy -- which has yet to be formally adopted -- calls for the GOC's 30% royalty take to increase when oil exceeds $90/barrel. It would jump by 5% for every $30 price increase (i.e., 35% from $90-$120; 40% from $120-150.) There would be a maximum royalty of 50%.

Martinez emphasized that the GOC has consulted extensively with the private sector, and that his read is that they are comfortable with the proposal (a point confirmed by U.S. energy companies during their dinner meeting with Kupfer). Martinez welcomed Kupfer's offer of DOE assistance in critical infrastructure protection, predicting disastrous consequences if an incident were to shut down Colombia's inland refinery in Barrancabermeja. Colombia -- with only 5 days of reserves -- would have no means to supply the capital of Bogota and the inland population centers from its remaining refinery in Cartagena. During the discussion, Minister Martinez noted that Carbon Capture and Storage technologies are not a priority for Colombia due to the country's limited use of its coal resources. He also said that it was not economical to use CO2 injection technologies for enhanced oil recovery in Colombia's declining fields, as the distance between its oil fields and coal centers is too far.

¶7. (U) DOE delegation cleared this cable.
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